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MINUTES
MEETING NO. 020
MEETING OF THE POLICE AND FIRE RETIREMENT SYSTEM
INVESTMENT COMMITTEE
TUESDAY, JUNE 13, 2017

A MEETING OF THE INVESTMENT COMMITTEE OF THE POLICE AND FIRE RETIREMENT SYSTEM OF THE CITY OF DETROIT WAS HELD ON **TUESDAY, JUNE 13, 2017** IN THE CONFERENCE ROOM OF THE RETIREMENT SYSTEMS, 500 WOODWARD AVENUE, SUITE 3000, DETROIT, MICHIGAN 48226

ROLL CALL:

CHAIRMAN **ROBERT SMITH** CALLED THE MEETING TO ORDER AT **10:05 A.M.** A QUORUM BEING PRESENT, ATTENDANCE WAS TAKEN BY RECORDING SECRETARY **JANET S. LENEAR** AND THE FOLLOWING COMMITTEE AND STAFF MEMBERS WERE PRESENT: JOSEPH BOGDAHN, MARK DIAZ, SEAN NEARY, CHAIRMAN ROBERT SMITH, GREGORY TROZAK, JOHN TUCKER, WOODROW TYLER, VICE CHAIRMAN MCCULLOUGH WILLIAMS, III, GENERAL COUNSEL RONALD A. KING, EXECUTIVE DIRECTOR CYNTHIA A. THOMAS, ASSISTANT EXECUTIVE DIRECTOR DAVID CETLINSKI, CHIEF INVESTMENT OFFICER RYAN C. BIGELOW, INVESTMENT OFFICER MICHAEL KRUSHENA, ACCOUNTANT KRISTI GRDEN, AND RECORDING SECRETARY JANET S. LENEAR

EXCUSED:

REBECCA S. SORENSEN, COMMITTEE MEMBER

GUESTS PRESENT:

JOHN NAGLICK, CITY OF DETROIT FINANCE DIRECTOR AND EX/OFFICIO TRUSTEE OF THE POLICE AND FIRE AND GENERAL RETIREMENT SYSTEMS

JOSEPH ENGLISH (WHO WILL SUCCEED TRACY THOMAS AS AN ACTIVE ELECTED TRUSTEE (REPRESENTING THE FIRE DEPARTMENT) OF THE POLICE AND FIRE BOARD ON JULY 1, 2017)

KATHY COLIN, PRESIDENT, NATIONAL ASSOCIATION OF SECURITIES PROFESSIONALS (NASP)

MOTION #1 – JUNE 13, 2017: APPROVAL OF JUNE 13, 2017 AGENDA

MOVED BY COMMITTEE MEMBER TYLER – SECONDED BY COMMITTEE MEMBER BOGDAHN: TO APPROVE TODAY'S JUNE 13, 2017 AGENDA AS PREPARED AND SUBMITTED BY THE COMMITTEE'S RECORDING SECRETARY, SUBJECT TO THE COMMITTEE'S IC MEMBERSHIP DISCUSSION BEING HELD IMMEDIATELY FOLLOWING GABRIEL, ROEDER, SMITH & COMPANY'S PRESENTATION. THE MOTION PASSED UNANIMOUSLY.

MOTION #2 – JUNE 13, 2017: APPROVAL OF MARCH 13, 2017 MINUTES

MOVED BY COMMITTEE MEMBER BOGDAHN – SECONDED BY COMMITTEE MEMBER TUCKER: TO APPROVE THE COMMITTEE'S MARCH 13, 2017 MINUTES AS RECORDED AND SUBMITTED BY THE COMMITTEE'S RECORDING SECRETARY. THE MOTION PASSED UNANIMOUSLY.

GABRIEL, ROEDER, SMITH & COMPANY

KENNETH G. ALBERTS AND **JUDITH A. KERMANS** DISCUSSED GABRIEL ROEDER'S PROJECT LIST FOR THE POLICE AND FIRE RETIREMENT SYSTEM, NOTING THAT MANY PROJECTS HAVE BEEN OR WILL BE COMPLETED. TWO COMPLETED PROJECTS ARE THE SYSTEM'S COMPONENT II STATUS VALUATION, AND THE SYSTEM'S PLAN FACTORS. THE SYSTEM'S COMPONENT I FUNDING VALUATION REPORT IS NEARLY READY FOR DELIVERY TO THE COMMITTEE AND THE POLICE AND FIRE RETIREMENT SYSTEM.

ONE RECENTLY AUTHORIZED "HIGH PRIORITY" PROJECT WAS THE SYSTEM'S REQUEST THAT GABRIEL ROEDER DEVELOP A FUNDING POLICY FOR THE SYSTEM'S COMPONENT II VALUATION.

MR. ALBERTS AND **MS. KERMANS** DISCUSSED FUNDING COMPONENTS; POLICIES (IN PLACE PRIOR TO THE CITY'S BANKRUPTCY); FUNDING REQUIREMENTS (THROUGH JUNE 30, 2023); FUNDING PROJECTIONS (CURRENT PLAN OF ADJUSTMENT CONTRIBUTIONS THROUGH 2023, 30-YEAR LEVEL PRINCIPAL AND INTEREST CONTRIBUTIONS AFTER 2023, AND 30-YEAR LEVEL DOLLAR CONTRIBUTIONS BEGINNING IN 2017); TARGETS; PROGRESS MEASUREMENTS; ASSUMPTIONS AND METHODS; INVESTMENT RETURNS; AMORTIZATION METHODS; INFLATION; AND RISK EXTENSIVELY.

CHAIRMAN **SMITH** ASKED THAT THE COMMITTEE BE PREPARED TO DISCUSS AND DECIDE ON A FUNDING POLICY FOR THE

GABRIEL, ROEDER, SMITH & COMPANY - CONTINUED

SYSTEM'S COMPONENT II VALUATION AT THE COMMITTEE'S JULY 24TH MEETING.

~CONCLUDES GABRIEL ROEDER'S PRESENTATION~

MOTION #3 - JUNE 13, 2017: APPROVAL OF JUNE 30, 2016 ANNUAL ACTUARIAL VALUATION OF COMPONENT II

MOVED BY COMMITTEE MEMBER WILLIAMS – SECONDED BY COMMITTEE MEMBER NEARY: TO APPROVE THE SYSTEM'S JUNE 30, 2016 ANNUAL ACTUARIAL VALUATION OF COMPONENT II AS PREPARED AND PRESENTED BY THE SYSTEM'S ACTUARY, GABRIEL, ROEDER, SMITH & COMPANY: THE MOTION PASSED UNANIMOUSLY.

APPOINTMENT OF SUCCESSOR INVESTMENT COMMITTEE MEMBER

FOLLOWING A BRIEF DISCUSSION, IT WAS DECIDED THAT THE COMMITTEE WOULD DISCUSS THE ABOVE-CAPTIONED MATTER DURING GENERAL COUNSEL'S LEGAL REPORT.

RETIREE PROTECTION FUND/FUNDING STRATEGY FOR LEGACY PENSION OBLIGATIONS

CITY OF DETROIT FINANCE DIRECTOR AND POLICE AND FIRE AND GENERAL RETIREMENT SYSTEM TRUSTEE **JOHN NAGLICK** DISCUSSED THE CITY'S PLAN TO CREATE THE RETIREE PROTECTION FUND ("RPF") AS A TAX-EXEMPT GOVERNMENTAL TRUST IN ACCORDANCE WITH IRS CODE SECTION 115. SAID FUND WILL BE CREATED FOR THE BENEFIT OF SATISFYING THE CITY'S REQUIRED CONTRIBUTIONS TO THE LEGACY PLANS OF BOTH SYSTEMS AND WILL BE FUNDED FROM DISCRETIONARY PENSION APPROPRIATIONS THROUGH FISCAL YEAR 2023 IN EXCESS OF FIXED CONTRIBUTIONS TO THE LEGACY PLANS REQUIRED BY THE PLAN OF ADJUSTMENT.

THE CITY'S FUNDING STRATEGY WILL BE TO CONTRIBUTE TO THE FUND THROUGH FISCAL YEAR 2023 TO BUILD TRUST ASSETS THAT WILL BE USED TO PARTIALLY OFFSET THE CITY'S REQUIRED LEGACY CONTRIBUTIONS WHICH RESUME IN FISCAL YEAR 2024.

DEPOSITS WILL BE MADE, IN ONE OR MORE INSTALLMENTS, THROUGH FISCAL YEAR 2023, AND THE TRUSTEE TRANSFERS RPF ASSETS TO THE PENSION PLANS WHICH ARE MADE IN ACCORDANCE WITH THE CITY'S **RETIREE PROTECTION FUND/FUNDING STRATEGY FOR LEGACY PENSION OBLIGATIONS - CONTINUED**

APPROVED ANNUAL BUDGETS TO FUND LEGACY PENSION CONTRIBUTIONS BEGINNING FISCAL YEAR 2024.

THE RPF TRUSTEE MUST BE A FINANCIAL INSTITUTION WITH TRUST POWERS AND BE ELIGIBLE UNDER APPLICABLE LAW TO SERVE AS A TRUSTEE. SAID TRUSTEE WILL BE ANSWERABLE TO THE CITY THROUGH THE CHIEF FINANCIAL OFFICER AND WILL INVEST RPF ASSETS PER THE CHIEF FINANCIAL OFFICER'S INSTRUCTION. THE PROPOSED FINANCIAL INSTITUTION WILL BE BANK OF NEW YORK MELLON AND MEETS THE REQUIREMENTS TO SERVE AS TRUSTEE. THE EIGHT-MEMBER INVESTMENT ADVISORY COMMITTEE WILL BE CHAIRED BY THE CHIEF INVESTMENT OFFICER OR A DESIGNATED DEPUTY CHIEF FINANCIAL OFFICER AND WILL INCLUDE THREE INDEPENDENT MEMBERS, EACH FROM THE GENERAL RETIREMENT SYSTEM INVESTMENT COMMITTEE AND POLICE AND FIRE RETIREMENT SYSTEM INVESTMENT COMMITTEE; AS WELL AS ONE MEMBER APPOINTED BY THE HONORABLE CITY COUNCIL.

MR. NAGLICK ALSO PRESENTED THE COMMITTEE WITH A CHART DETAILING THE CITY'S PROPOSED FUNDING STRATEGY FOR FUNDING LEGACY PENSION OBLIGATIONS THROUGH FISCAL YEAR 2035; DETAILING GENERAL FUND PENSION FUND CONTRIBUTIONS; PENSION FUND CONTRIBUTIONS FROM THE RETIREE PROTECTION FUND; AND RETIREE PROTECTION FUND RECURRING AND NON-RECURRING DEPOSITS.

HAVING CONCLUDED HIS REPORT, **MR. NAGLICK** EXCUSED HIMSELF AT **11:48** A.M.

UHY

MARLENE BEACH PROVIDED THE COMMITTEE WITH AN INTERIM FINANCIAL REPORT, NOTING THAT THE SYSTEM'S NEW ACCOUNTING SOFTWARE CONVERSION WAS RECENTLY COMPLETED AND THAT UHY IS IN THE PROCESS OF RE-CREATING THE SYSTEM'S CURRENT FINANCIAL STATEMENTS.

~CONCLUDES UHY'S PRESENTATION~

RECESS

THE COMMITTEE RECESSED FOR LUNCH FROM 11:52 A.M. UNTIL 12:23 P.M.
WILSHIRE ASSOCIATES

PRIOR TO WILSHIRE'S PRESENTATION, INVESTMENT OFFICER **MIKE KRUSHENA** AND CHIEF INVESTMENT OFFICER **RYAN C. BIGELOW** DISCUSSED SUPERIOR CAPITAL'S FUND, L.P. (RETURNS AND VALUATIONS); THE SYSTEM'S JUNE 30, 2016 COMPONENT II ANNUAL ACTUARIAL VALUATION; OPPORTUNISTIC DEBT; STRUCTURED CREDIT; DIRECT LENDING; REAL ESTATE; AND PRIVATE EQUITY.

MESSRS. LINDBERG AND BORN DISCUSSED THE SYSTEM'S JUNE 30, 2016 ANNUAL ACTUARIAL VALUATION OF COMPONENT II; ASSET CLASS PERFORMANCE; MARCH, 2017 ASSUMPTIONS; RETURNS; GLOBAL CREDIT SPREADS; THE HIGH-YIELD BOND MARKET; CAPITAL MARKETS; POLICY VERSUS ACTUAL ALLOCATION; INVESTMENT PERFORMANCE AND MARKET VALUES; PRIVATE CREDIT; CLO EQUITY MANAGERS; AND DIRECT LENDING MANAGERS.

~CONCLUDES WILSHIRE'S PRESENTATION~

MOTION #4 – JUNE 13, 2017: THL CREDIT SELECT CLO EQUITY FUND, L.P.

MOVED BY COMMITTEE MEMBER BOGDAHN – SECONDED BY COMMITTEE MEMBER NEARY: TO APPROVE THE RECOMMENDATION OF STAFF AND WILSHIRE TO COMMIT \$30,000,000.00 TO THL CREDIT SELECT CLO EQUITY FUND, L.P., SUBJECT TO GENERAL COUNSEL'S REVIEW AND APPROVAL OF ALL TRANSACTION DOCUMENTS: THE MOTION PASSED UNANIMOUSLY.

MOTION #5 – JUNE 13, 2017: COMVEST CAPITAL IV; CRESCENT DIRECT LENDING FUND II; BENEFIT STREET PARTNERS FUND IV; PERMIRA CREDIT SOLUTIONS III

MOVED BY COMMITTEE MEMBER BOGDAHN – SECONDED BY COMMITTEE MEMBER NEARY: TO COMMIT \$30,000,000.00 TO COMVEST CAPITAL IV; \$30,000,000.00 TO CRESCENT DIRECT LENDING FUND II; \$15,000,000.00 TO BENEFIT STREET PARTNERS FUND IV; AND \$30,000,000.00 TO PERMIRA CREDIT SOLUTIONS III, SUBJECT TO GENERAL COUNSEL'S REVIEW AND APPROVAL OF ALL TRANSACTION DOCUMENTS: THE MOTION PASSED UNANIMOUSLY.

MOTION #6 – JUNE 13, 2017: MUNIMAE SUBORDINATED DEBT

MOVED BY COMMITTEE MEMBER NEARY - SECONDED BY COMMITTEE MEMBER TROZAK: TO ACCEPT MMA CAPITAL MANAGEMENT'S OFFER TO

MOTION #6 – JUNE 13, 2017: MUNIMAE SUBORDINATED DEBT - CONTINUED

PURCHASE THE SYSTEM'S SUBORDINATED PROMISSORY NOTE: THE MOTION PASSED UNANIMOUSLY.

MOTION #7 – JUNE 13, 2017: SEMINOLE EQUITY REIT

MOVED BY COMMITTEE MEMBER BOGDAHN - SECONDED BY COMMITTEE MEMBER NEARY: TO ACCEPT SEMINOLE'S REQUEST TO WRITE-DOWN SEMINOLE'S EQUITY REIT, SUBJECT TO ADDITIONAL TERMS AND FURTHER REVIEW BY STAFF AND COURTLAND PARTNERS: THE MOTION PASSED UNANIMOUSLY.

MOTION #8 – JUNE 13, 2017: SUPERIOR CAPITAL TENDER OFFER

MOVED BY COMMITTEE MEMBER NEARY - SECONDED BY COMMITTEE MEMBER TYLER: TO APPROVE SUPERIOR CAPITAL'S TENDER OFFER, SUBJECT TO ADDITIONAL REVIEW AND RECOMMENDATION BY HAMILTON LANE: THE MOTION PASSED UNANIMOUSLY.

LEGAL REPORT

GENERAL COUNSEL **RONALD A. KING** ASKED THE COMMITTEE TO ENTER INTO CLOSED SESSION TO DISCUSS PENDING LITIGATION AND VARIOUS MATTERS INVOLVING ATTORNEY/CLIENT PRIVILEGE.

MOTION #9 – JUNE 13, 2017: ENTERING INTO CLOSED SESSION

MOVED BY COMMITTEE MEMBER TUCKER - SECONDED BY COMMITTEE MEMBER DIAZ: THAT THE COMMITTEE ENTER INTO CLOSED SESSION FOR THE PURPOSE OF DISCUSSING PENDING LITIGATION AND VARIOUS MATTERS INVOLVING ATTORNEY/CLIENT PRIVILEGE: A ROLL CALL VOTE WAS TAKEN; THE MOTION PASSED UNANIMOUSLY AND THE COMMITTEE ENTERED INTO CLOSED SESSION AT **12:58 P.M.**

MOTION #10 – JUNE 13, 2017: RETURNING TO OPEN SESSION

MOVED BY COMMITTEE MEMBER NEARY - SECONDED BY COMMITTEE MEMBER TROZAK: THAT THE COMMITTEE RETURN TO OPEN SESSION: THE

MOTION PASSED UNANIMOUSLY AND THE COMMITTEE RETURNED TO OPEN SESSION AT **2:55 P.M.**

LEGAL REPORT - CONTINUED

CHAIRMAN **SMITH** ASKED THAT THE COMMITTEE BE PREPARED TO DISCUSS **REBECCA S. SORENSEN'S** SUCCESSOR AT THE COMMITTEE'S JULY 24TH MEETING.

~CONCLUDES LEGAL REPORT~

MOTION #11 - JUNE 13, 2017: THANKING COMMITTEE MEMBER REBECCA S. SORENSEN

MOVED BY COMMITTEE MEMBER TUCKER - SECONDED BY COMMITTEE MEMBER DIAZ: TO THANK **REBECCA S. SORENSEN** FOR CARRYING OUT HER RESPONSIBILITIES WITH DEDICATION, SINCERITY AND HARD WORK AND FOR PROVIDING THE INVESTMENT COMMITTEE WITH DISTINGUISHED SERVICE. THE COMMITTEE ALSO WISHES TO EXPRESS FUTURE BEST WISHES TO **MS. SORENSEN** (HER TENURE WITH THE COMMITTEE COMMENCED ON **JANUARY 16, 2015** AND TERMINATES THIS DATE): THE MOTION PASSED UNANIMOUSLY.

GRS INVESTMENT COMMITTEE ADVISOR AND CONSULTANT REVIEW POLICY

EXECUTIVE DIRECTOR **CYNTHIA A. THOMAS** PROVIDED THE COMMITTEE WITH A COPY OF THE GENERAL RETIREMENT SYSTEM'S MAY 19, 2017 REQUEST TO ITS INVESTMENT COMMITTEE WITH RESPECT TO ITS SERVICE PROVIDER REVIEW POLICY. SHE ALSO PROVIDED POLICE AND FIRE'S COMMITTEE WITH A COPY OF GENERAL'S INVESTMENT COMMITTEE ADVISOR AND CONSULTANT REVIEW POLICY, WHICH WAS ADOPTED ON JANUARY 30, 2017, AND DISCUSSED SAME IN DETAIL. **MS. THOMAS** THEN ASKED THE COMMITTEE TO SUBMIT A WRITTEN REQUEST TO GENERAL'S IC ASKING TO BE INCLUDED IN THEIR SERVICE PROVIDER REVIEW PROCESS (PARTICULARLY WITH RESPECT TO SHARED PROVIDERS SUCH AS ACTUARIES AND AUDITORS), AND TO WORK TOGETHER COLLABORATIVELY.

MOTION #12 - JUNE 13, 2017: GRS INVESTMENT COMMITTEE ADVISOR AND CONSULTANT REVIEW POLICY

MOVED BY COMMITTEE MEMBER BOGDAHN - SECONDED BY COMMITTEE MEMBER TYLER: TO SUBMIT A WRITTEN REQUEST TO GENERAL'S IC

ASKING TO BE INCLUDED IN THEIR SERVICE PROVIDER REVIEW PROCESS (PARTICULARLY WITH RESPECT TO SHARED PROVIDERS SUCH AS ACTUARIES AND AUDITORS), AND TO WORK TOGETHER COLLABORATIVELY: THE MOTION PASSED UNANIMOUSLY.

ADJOURNMENT

THERE BEING NO FURTHER BUSINESS BEFORE THE INVESTMENT COMMITTEE, CHAIRMAN **SMITH** ADJOURNED THE MEETING AT **3:03 P.M.** UNTIL **MONDAY, JULY 24, 2017**, AT **10:00 A.M.** (VIA TELECONFERENCE) IN THE CONFERENCE ROOM OF THE RETIREMENT SYSTEMS, 500 WOODWARD AVENUE, SUITE 3000, DETROIT, MICHIGAN 48226.

RESPECTFULLY SUBMITTED,



ASSISTANT EXECUTIVE DIRECTOR

MINUTES PREPARED BY: JANET S. LENEAR, RECORDING SECRETARY

MINUTES REVIEWED BY: RYAN C. BIGELOW, CHIEF INVESTMENT OFFICER

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